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SIPDIS

DEPT FOR AF/S/JDIFFILY; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/BARBER/WALKER/JEWELL
USTR FOR COLEMAN
LONDON FOR GURNEY; PARIS FOR NEARY

E.O. 12958: N/A
TAGS: ECON EINV EFIN ETRD BEXP KTDB PGOV SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWSLETTER NOVEMBER 19, 2004 ISSUE

¶1. Summary. Each week, AMEmbassy Pretoria publishes an economic newsletter based on South African press reports. Comments and analysis do not necessarily reflect the opinion of the U.S. Government. Topics of this week's newsletter are:

- Foreign Exchange Reserves Target Published Next Year;
- Street Traders Important to Farming;
- Survey Reveals Informal Sector Importance;
- New Forum Started to Advise SMMEs;
- Local Car Manufacturers Create 1,519 Jobs;
- SA is World's Sixth-largest Wine Producer;
- Holiday Season Expected Best in 20 Years;
- 100,000 Mzansi Account Holders; and
- 6.5 Percent of GDP Spent on Red Tape.

End Summary.

FOREIGN EXCHANGE RESERVES TARGET PUBLISHED NEXT YEAR
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¶2. A standing committee will be established to determine an appropriate level for South Africa's foreign exchange reserves and would publish its recommendations in 2005, according to Lesetja Kganyago, the Treasury Director-General. To develop the reserves target, a formula that considered current account deficit forecasts as well as short-and long-term government debt would be used. The committee, comprised of National Treasury and Reserve Bank officials, would also be responsible for coordinating the government's debt management strategy with that of reserves management. South Africa has gradually grown its gross reserves to $13 billion, prompting Moody's to consider upgrading the country's investment grade next month. Compared with emerging market peers such as Turkey and the Czech Republic, South Africa's reserves are minimal, as both peer countries have gross reserves in excess of $20 billion. The International Monetary Fund recommends that a country must hold reserves that can cover three months of imports. From June through August 2004, South African imports totaled $12.4 billion. Source: Business Report, November 15.

STREET TRADERS IMPORTANT TO FARMING

¶3. The latest issue of Farmer's Weekly emphasizes the importance of informal traders to the agricultural sector. Informal traders buy 43 percent of potatoes and 23 percent of all market produce. While no formal research had been completed on the market share of vendors in fresh produce markets, Agricultural Business Chamber Chief Executive Tobias Doyer estimates a 30 percent share. The informal trader has become such a strong market player in the fresh produce distribution network that business training is now provided by most markets, including Tshwane's (greater Pretoria) Fresh Produce Market, the second largest after Johannesburg's market. Source: Business Day, November
¶16.

SURVEY REVEALS INFORMAL SECTOR IMPORTANCE

¶4. The University of South Africa and the University of South Carolina collaborated on a survey of the informal retail sector in South Africa and found that these informal businesses were more sustainable than previously thought. The survey covered 800 businesses, ranging from spaza shops (small retail stores in former township areas) to shebeens (bars) and hawkers (street vendors) that did not pay value added tax. The study found that these enterprises had an average monthly turnover (a measure of sales) of more than R5,300 ($880 using 6 rands per dollar). More than half of the owners of South Africa's informal businesses said they would not look for a job in the formal sector if they had a choice. Spaza owners ranked soft-drink sales more important than bread in contribution to sales and the informal sector generated between 40 and 50 percent of Coke's R3 billion ($500

million) sales in South Africa. Approximately 35 percent of survey respondents were unemployed before starting their businesses and 70 percent used savings, 10 percent used money from separation packages and 2 percent used bank financing to start their businesses. Most of the money earned went to replenishing stock merchandise with very little going into capital outlay. Approximately 40 percent of respondents had no refrigeration and only 8.2 percent received formal business training. Source: Business Day, November 16.

NEW FORUM STARTED TO ADVISE SMMES

¶5. The Small, Medium and Micro Enterprises (SMME) Forum will advise small start-up businesses, aid training and lobby government on SMME's behalf. Originally established to encourage small business input into several empowerment charters, its efforts are now expanded to provide more services to entrepreneurs and to large companies looking to procure services from SMMEs as well. The forum would help small enterprises by collecting tender information, offering legal advice, providing online training and helping to collect unpaid debts. The forum plans to establish a database of small, reliable suppliers by economic sector and has a policy that member companies cannot remain members forever, as they are expected to grow into larger enterprises. Source: Business Day, November 16.

LOCAL CAR MANUFACTURERS CREATE 1,519 JOBS

¶6. According to the latest quarterly review of business conditions released by the National Association of Automobile Manufacturers of SA (NAAMSA), a total of 1,519 jobs were created in the new vehicle manufacturing industry in the first nine months of 2004, an improvement of 4.9 percent on the corresponding period last year. These latest employment trends follow a report on the automotive industry released last week by the Trade and Industry Department, stating that total automotive industry employment, including the assembly, component and tire industries and motor trade, increased by 2 percent to 303,700 in 2003. Recent developments in the South African car market include Volkswagen's contract to produce the new Golf A5 for the local and export markets and Toyota's Durban plant being named as one of five facilities worldwide that will produce a new-generation light commercial vehicle. In addition, Nissan SA was awarded a R1 billion ($167 million) contract to export locally assembled Hardbody pick-ups to Europe, Singapore, Australia and New Zealand, starting in October 2005. The influence of the strong rand and highly competitive global market conditions contributed to lower vehicle exports during the first nine months of 2004. From January to September, 2004 exports declined 13.3 percent (11,288 vehicles) compared to the first nine months of 2003. Source: Business Report, November 16.

SA IS WORLD'S SIXTH-LARGEST WINE MANUFACTURER

¶7. South Africa is the world's sixth-largest wine maker, at 2.8 percent of global production and with gross output of wine-related firms estimated to be worth R14.6 billion ($2.4 billion) a year. In 2001, there were 4,390 primary wine producers and 388 cellars, an increase of 15 percent since 1999. About 746 million liters of wine were made annually from 314 million vines. On average, 71 percent of production found its way into good wine (for drinking), an increase from 65 percent in 1999. In the late 1990s, there was considerable foreign investment in Western Cape vineyards, large-scale replanting and quality improvements, which led to a boom in exports. Exports grew to 210 million liters in 2002, from 50.7 million liters in 1994, and accounted for 33.5 percent of good wine production, up from 14.6 percent in 1995, with the total export value for wines in 2001 estimated at R4.5 billion ($750 million). About 50 percent of bottled wine exports were to the United Kingdom, 21 percent to the Netherlands, 9 percent to Scandinavia and 6.5 percent to Germany. Markets identified as growth opportunities include the United States, India, China and Japan. Approximately 43 percent of tourists to South Africa visit the vineyards with the wine industry indirectly contributing over R3.5 billion a year to tourism. Viticulture contributed 30 percent to the Western Cape's horticultural income and about 3 percent of its gross regional product. Source: Business Report, November 16.

HOLIDAY SEASON SALES EXPECTED BEST IN 20 YEARS
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¶8. South Africa's holiday season retail sales in the fourth quarter, which covers the Christian Christmas

season, as well as the Hindu Diwali festival, the Muslim Eid festival and the Jewish Hanukkah festival, should be the best in at least 20 years, according to the Ernest & Young Festive Season Retail Trends survey covering 500 retailers by the Bureau for Economic Research (BER) at the University of Stellenbosch. Retail sales are expected to grow by 17.4 percent (y/y) during the holiday season, the highest increase since 1987, compared to 10.2 percent (y/y) growth during 2003. Increases in both prices and volume of goods sold should fuel the expected growth in retail sales. Volumes of goods sold should increase by 11.7 percent and prices should increase by 5.1 percent. During last year's holiday season, units of goods sold increased by 8 percent while prices increased by 2.1 percent. Income for both high and low-income individuals should increase. The BER survey defines high-income individuals as those earning R4500 ($750) per month or higher. Investment income, tax rates, and interest rates impact high-income earners. Low-income earners benefit more from higher wages, social grants and low food costs. While wage earnings as a proportion of personal disposable income has declined over time, from 81 percent in 1990 to 72 percent in 2003, the importance of social grants and investment income has increased. Social grants accounted for 7 percent of disposable income in 2003, compared to 5 percent in 1990. In 2003, investment income's share of disposable income was 35 percent compared to 27 percent in
¶1990. The study also estimates that black adults comprise 1.8 million of the 4.5 million high-income earners in South Africa this year. Source: I-Net Bridge, November 16; Business Day and Business Report, November 17.

¶9. Comment. Previously, Statistics South Africa reported real retail sales 9.1 percent for the first half of 2004, and increases in monthly retail sales of over 10 percent for July and August. Real wholesale trade sales for the first half of 2004 increased by 7.2 percent. Given expectations of continued strong retail sales growth, 2004 GDP growth should be much higher than 2003's 1.9 percent. End comment.

100,000 MZANSI ACCOUNT HOLDERS

¶10. Since the October 25 Mzansi account launch, more than 100,000 people have opened the new bank account aimed at low-income customers. Although these accounts are aimed at lower income individuals, estimates suggest that nearly R30 million ($5 million) have been deposited. Eight banks are offering these accounts to the estimated 13-16 million eligible South Africans without accounts, with ABSA and Standard Bank leading by opening 30,000 accounts each, Nedbank and PostBank opening 10,000 and 15,000, respectively. Spokesmen from both Standard Bank and Nedbank could not estimate how many of the new Mzansi accounts were switched from existing accounts and stated that additional study is needed. Source: Business Day, November 17.

6.5 PERCENT OF GDP SPENT ON RED TAPE

¶11. SBP, a non-profit independent private sector research company (originally Small Business Project), developed a survey of 1,800 firms that examines the cost of regulatory compliance to South African firms. The survey covered most economic sectors including firms in manufacturing, mining, construction, trade, agriculture, and services sectors. Among the key findings include: (1) total cost to business of complying with regulations is R79 billion ($1.3 billion) in 2004, 6.5 percent of GDP; (2) 34 percent of businesses believe that regulations inhibit business growth; (3) 20 percent of employers say that labor law and government regulations constrain increases in employment; (4) businesses report that the most troublesome and time consuming regulations are VAT, other aspects of tax administration, labor laws, SETA/RSC taxes (SETA is fee paid by business for labor training and RSC is a regional services council tax), in that order; (5) 76 percent of respondents say that compliance costs have increased in the past two years; (6) large firms pay the most in absolute terms, but regulatory compliance costs weigh more heavily on smaller enterprises--compliance costs represent 8.3 percent of turnover (a measure of sales for restocking purposes) for firms with turnover of less than 1 million rand a year, and 0.2 percent of turnover for corporations that turnover 1 billion rand or more a year; and (6) the impact of red tape is greatest in transport, services and tourism and least in retailing and wholesaling. The SBP survey looks at two kinds of regulatory costs faced by the private sector - efficiency costs and compliance costs. Efficiency costs occur when regulations distort the market, such as when labor market legislation affects employment and output, or when a business decides to limit sales in order to stay below the VAT threshold.
Compliance costs are purely the costs of red tape,

including management time, interacting with authorities, paperwork and professional services and consultants' fees. They do not include tax payments or levies. Source: I-Net Bridge, November 17.

FRAZER